

E- Distribuție Muntenia SA

Report of the Directors

For the Financial Exercise Ended on December 31, 2021

March 2021

1. General considerations

In 2021, the Company achieved a turnover of 924,125,048 (2020: 858,511,382), of which:

- revenues from the distribution of active electricity 824,509,063 (2020: 764,414,058);
- revenues from distribution of reactive energy 22,585,658 (2020: 23,910,415);
- revenues from transactions on the balancing market 27,864,002 (2020: 10,232,861);
- revenues from the connection fee, approval fee and final reception of works 6,063,420 (2020: 6,621,123);
- revenues from rental income 20,940,494 (2020: 24,231,664);
- revenues from the sale of energy on the next day's market 564,088 (2020: 2,797,248);
- revenues from theft income 1,764,855 (2020: 2,351,597); and
- and other income 19,833,467 (2020: 23,952,416) (sale of goods, other income).

The company distributed electricity to 1.415 million consumers in the current year (2020: 1,377), the total amount of electricity distributed to final consumers being 7,666,698 Mwh (2020: 7,253,648 Mwh). The average rate for distribution of electricity for the entire year 2021 was 107.5 RON / MWh (2020: 105.4 RON / MWh).

During 2021, the Company distributed 6,880,411 Mwh (2020: 6,199,155) to eligible consumers at an average rate of 102.7 RON / Mwh (2020: 97.9 RON / Mwh) and 786,287 Mwh (2020: 1,054 .493 MWh) to captive consumers at an average rate of 149.9 RON / MWh (2019: 149.4 RON / MWh).

The distribution rates regulated by ANRE order are the following:

January 1 – December 31, 2021 (Ron /Mwh)		
High voltage	Medium voltage	Low voltage
10,41	34,55	112,22

The distribution rate is applied according to the voltage level related to the delimitation point between the distribution operator and the user, by adding the specific rate related to the respective voltage level, the specific rate related to the higher voltage levels, in compliance with the regulations in force.

High voltage (HV) customer pays high voltage (HV) distribution rate, medium voltage (MTV) customer pays high voltage (HV) distribution rate + medium voltage (MV) distribution rate, low voltage (LV) customer pays high voltage distribution tariff (HV) + medium voltage distribution tariff (MV) + low voltage distribution rate (LV).

In the general context in which the purchase prices of electricity should cover the network losses had an unprecedented increase in relation to the cost recognized in the distribution rate of 2021 (the increase was 56%), the average effective purchase price being RON 480 / MWh compared to the purchase price recognized in the distribution rate of RON 308 / MWh.

2. The structure of the share capital

On 31.12.2020, the share capital of the Company is RON **271,365,250**, fully subscribed and paid-in and is divided into 27,136,525 registered shares, with a par nominal value of RON 10 each.

The shareholding structure of the Company as of December 31, 2021 is as follows:

- a) Enel SpA, holding 21,166,477 shares, with a par nominal value of RON 10 each, in a total value of 211,664,770, representing 78% of the share capital;

b) Societatea de Administrare a Participatiilor in Energie, holding 2,713,652 shares, with a par nominal value of 10 RON each, with a total value of 27,136,520, representing 10% of the share capital; and

c) Fondul Proprietatea S.A. holding 3,256,396 shares, with a par nominal value of RON 100 each, in a total value of 32,563,960, representing 12% of the share capital.

The company has no subsidiaries or branches.

3. Internal control

The process of managing internal controls is structured in the following sub-processes:

- Defining the purpose;
- Mapping / updating processes / internal controls and related risks;
- Evaluation of internal controls with regard to definition and operation by the process manager;
- Monitoring the internal controls tested by the external specialized partner;
- Identifying deficiencies and implementing the remediation plan;
- Strengthen the results of the evaluation of internal controls.

4. Summary of operations in 2021

During 2021, the Company met its main objectives:

The most important achievements of the Company in 2021 were as follows:

- Modernization / construction of about 8 km of high voltage overhead power lines
- The power transformers from Glina station were amplified from 25 MVA to 40 MVA
- Equipment modernization / replacement works in Nord, Filaret, Dudesti, Obor stations
- Modernization of 45 existing substations / supplying points;
- Replacement of 4 PTA / PTM with PTAB;
- Installation of 12 new transformer station;
- Modernization / construction works of about 113 km of medium voltage power lines;
- Modernization / construction works of about 120 km of low voltage network;
- Continuation of actions related to the implementation and consolidation of processes that support safety at work, both for ENEL staff and for contractors;
- Concrete actions to facilitate the identification of the main measures meant to reduce energy losses in the distribution networks;
- Continuing the actions of developing the remote-control system in order to increase the quality of the distribution service;
- Continuing the technical unification for products and equipment in order to standardize the network and improve the distribution service;
- Implementation of the pilot project for the installation of smart metering systems, with 71,160 pieces of smart meters installed.

5. Predictable development of the Company

In the coming years, the Company's management aims to maintain the company's financial stability by continuing investments in the electricity distribution network.

For 2022, the Company aims to carry out the following investment projects:

- Replacement works of low voltage electrical networks and place meters at the property limit in order to reduce losses in the network;

- Switching to 20 kV medium voltage electrical distribution networks (10 kV);
- Continuing the actions of developing the remote-control system in order to improve the quality of the distribution service;
- Continuing the actions of developing the smart meter system for household customers;
- Continuing the modernization works in the Nord, Filaret and Obor stations;
- Starting works at the 110/20 kV Mircea Eliade new station;
- Continuing the modernization works and introduction in remote control of supply points and transformer stations;
- Modernization / construction of high voltage overhead / underground power lines that will ensure a higher transport capacity and will ensure increased safety in terms of energy supply to customers;
- Modernization / construction of medium voltage overhead / underground power lines that will ensure the improvement of the quality of the electricity distribution service;
- Continuing the works for the amplification of transformer stations / substations in order to ensure the capacity of the network to connect new consumers to the network;
- Continuing the implementation of the project for the installation of intelligent measurement systems – 64,668 pcs.

6. Personnel connected issues

The Company's human resources policy focuses on the following directions:

- Continuing the Company's concerns for a culture of safety, with a focus on protecting colleagues against Covid-19 virus;
- Reorganization of all departments within the company in order to be more efficient, innovative and to increase customers' satisfaction;
- The development of new activities, the recent legislative changes, as well as the revision of the processes of continuous digitalization of the Company's operations require the adaptation and / or development of the competencies of the existing personnel; as a result, personnel recruitment is also focused on new profiles, which were not found in the Company until now, and the development and training plan has been adapted accordingly;
- Supporting colleagues through specific technical trainings in order to obtain the certifications required by the Romanian Energy Regulatory Authority;
- Creating and applying new training programs dedicated to employees who have been promoted in leadership roles of various departments, with emphasis on the values and behaviours of ENEL as well as on the application of modern leadership principles;
- Creating and applying new training programs in order to promote the Agile methodology within the organization
- Continuation of the process of alignment with the group's policies, by updating the documents (procedures, instructions);
- Reviewing the performance evaluation process, in order to highlight the strengths of each colleague and to evaluate the objectives set, based on the competencies defined at the organizational level.

As on December 31, 2021, the Company made provisions for restructuring in the amount of 8,598,207 (2020: 0) as a result of the agreement signed between the Company and the trade union, which considers a plan for leaving the Company before early retirement. The company will pay compensatory salaries depending on the period remaining until retirement and seniority in the Company to the eligible persons according to the agreement.

7. Environmental issues

During 2021, the Company continued to carry out programs related to waste management, monitoring of environmental factors, reducing the level of pollution in all facilities, total environmental expenses amounting to approximately RON 1,505,790.

Mainly, the expenditures were made in 2021 for:

- Collection, transport and disposal of urban and assimilated waste (sanitation) in amount of 82,559;
- Collection and transport of wastewater, stormwater drainage, sewerage network (canal, rainwater) in amount of 129,377;
- Specific environmental taxes (Environmental fund 2% of waste recovery, tax for emissions from fixed sources - thermal power plants, approval fees, approval fees for waste transport forms, Apa Nova municipal tax) in amount of 55,691;
- Prevention of soil, subsoil, and water pollution in amount of 467,836:
 - a. Analyses of mineral oil samples from EDM transformers in amount of 6,300;
 - b. Performing retention tanks under IT and GTN transformers in Obor and Glina stations in amount of 418,000;
 - c. Collection, transport and disposal of hazardous waste in amount of 40,715;
 - e. Collection, transport, destruction of waste resulting from E1P for the prevention of COVID-19 infection and the purchase of materials for waste storage until collection in the amount of 2,821;
- Internal training on environmental protection in the amount of 237,958;
- Expenses with the personnel dedicated to the environmental protection activity in amount of 500,787;
- ISO 14001 SRAC audit expenses in amount of 3,117;
- Expenditures for biodiversity protection (installation of stork nest supports, installation of electrical insulating sheaths to avoid electric shock to birds) in amount of 28,465.

8. Risk management

As a risk management policy, the Company considers the following:

- a. Identifying and monitoring the major categories of potential and existing risks, financial, of credit and counterparty, as well as the existing products within the company and providing support in order to reduce them;
- b. Implementation and use of risk assessment and monitoring models, defined at the level of the Enel Group, in order to assess and monitor risks at company's level, in compliance with local regulations, where applicable;
- c. Identification and implementation of periodic reporting methods (monthly and quarterly) regarding the company's activity to monitor the existing risks;
- d. Setting annual limits, monitoring and monthly reporting the situation of debtors, in order to anticipate credit risk and provide support to reduce risk;
- e. Setting annual limits and monitoring financial risk and exposure to financial institutions (commercial banks) and using financial instruments to hedge the foreign exchange market risk;
- f. Setting the annual limits and monitoring the products in order to improve the quality of the portfolio by calculating the risk indicators;
- g. Monthly monitoring and reporting on the situation of active guarantees and insurance policies active;
- h. Assessing compliance with regulations in force at the local level and implementing risk monitoring systems, by defining and implementing procedures where necessary.

The main financial risks identified by the Company are the following:

The interest rate risk

At present, the Company does not have medium and long-term loans and is therefore not exposed to the risk of interest rate changes.

The risk of exchange rate fluctuations

The company has transactions in a currency other than the functional currency (RON) and these are naturally diminished and offset. The company did not reduce this risk by using derivative financial instruments in 2021 and 2020.

The credit risk

The company carries out commercial relations only with recognized third parties, which justifies the financing by credit. The Company's policy is that all significant customers wishing to conduct business relationships on credit terms are subject to verification procedures. Moreover, receivables balances are constantly monitored, resulting in an insignificant exposure of the Company to the risk of uncollectible receivables.

9. Non-financial statement

In accordance with the legal requirements for the presentation of non-financial information, the Company prepares and publishes a separate report on sustainability, corresponding to the same financial year, which contains the information required for the non-financial statement, and which describes the Company's sustainability initiatives. This report will be made available to the public on the Company's website (<https://www.e-distributie.com>) within a legal period, until June 30, 2022.

10. Financial information
10.1 Main elements of Balance sheet on 31 December 2021

	Balance at the beginning of the year	Balance at the end of the year
FIXED ASSETS		
I. INTANGIBLE ASSETS	30,350,700	34,303,872
II. TANGIBLE ASSETS	3,692,641,134	3,978,920,467
III. FINANCIAL ASSETS	-	-
FIXED ASSETS - TOTAL	3,722,991,834	4,013,224,339
CURRENT ASSETS		
I. INVENTORIES	2,738,824	4,711,993
II. RECEIVABLES	260,156,721	311,631,985
III. SHORT-TERM INVESTMENTS	-	-
IV. CASH AND BANK ACCOUNTS	913,920,542	645,830,817
CURRENT ASSETS - TOTAL	1,176,816,087	962,174,795
EXPENDITURE IN ADVANCE	3,159,254	2,833,180
DEBTS: AMOUNTS TO BE PAID WITHIN ONE YEAR	648,746,328	743,779,174
DEBTS: AMOUNTS TO BE PAID IN MORE THAN ONE YEAR	87,753,159	95,125,889
PROVISIONS	1,288,255,346	1,372,954,086
DEFERRED INCOME		
CAPITAL AND RESERVES		
CAPITAL		
I. CAPITAL	271,365,250	271,365,250
II. RESERVES	2,302,816,185	2,294,956,677
IV. PROFIT OR LOSS CARRIED OUT	208,047,304	144,225,977
V. PROFIT OR LOSS OF THE FINANCIAL YEAR	111,800,491	55,825,262
VI. DISTRIBUTION OF PROFIT	(15,816,888)	-
CAPITALS - TOTAL	2,878,212,342	2,766,373,166

10.2 Main items Profit and loss account for the financial year ended December 31, 2021

Item	Financial year ended December 31, 2020	Financial year ended December 31, 2021
OPERATING INCOME	968,223,758	1,038,737,671
OPERATING EXPENSES	865,496,568	991,453,392
PROFIT OR LOSS FROM OPERATION	102,727,190	47,284,279
FINANCIAL REVENUE	17,921,701	11,740,504
FINANCIAL EXPENSES	6,205,718	3,484,576
FINANCIAL PROFIT OR LOSS	11,715,983	8,255,928
TOTAL INCOME	986,145,459	1,050,478,175
TOTAL EXPENSES	871,702,286	994,937,968
GROSS PROFIT OR LOSS	114,443,173	55,540,207
INCOME TAX	2,642,682	(285,055)
NET PROFIT OR LOSS OF THE FINANCIAL YEAR	111,800,491	55,825,262

10.3 Economic and financial indicators

	2020	2021
1 Liquidity indicators		
Current liquidity indicator	1.81	1.29
Immediate liquidity indicator	1.81	1.29
2 Risk indicators		
Indebtness (%)	n/a	n/a
3 Activity indicators		
Turnover rate of debts -customer	88	72
Turnover rate of loans-suppliers	135	134
Turnover rate of fixed assets	0.23	0.23
Turnover rate of total assets	0.17	0.19
4 Profitability indicators		
Return on capital (%)	3.98%	2.01%
Gross sales margin (%)	10.33%	6.01%

Both the current liquidity indicator and the immediate liquidity indicator decreased compared to the previous year, while the decrease in current assets (mainly due to the reduction of bank accounts as result

of the payment of dividends) takes place in the same time with a sharp increase in current debt. The effect of the unprecedented rise in energy prices has led to a significant increase in debts to energy suppliers.

The turnover rate of supplier's loans registered an insignificant variation compared to the previous year, due to the increase of the average balance of suppliers at the same time as the increase in an accelerated pace of energy purchase prices to cover network losses. At the same time, there has been a significant increase in investment, in line with the ANRE plan set at the beginning of the regulatory cycle at a faster pace than the increase in the average balance of suppliers.

The turnover rate of customer debts has improved due to the reduction of the average balance of receivables and the slight increase in the level of turnover.

11. Distribution of the profit related to the financial year ended on December 31, 2021

At the end of the financial year 2021, the Company registered a total profit of 55,825,262.

The Board of Directors proposes that the remaining net profit of 55,825,262 to be allocated to the deferred income statement (account 117), considering a prudent, appropriate approach, and potential impact of cash flows from regulatory constraints, legislative and business connected.

12. Events subsequent to the balance sheet date

At the end of February 2022, the Ministry of Energy launched for public debate the GEO draft on measures applicable to final customers in the electricity and natural gas market for April 1, 2022 - March 31, 2023. The document proposes temporary measures so that electricity and natural gas prices paid by final customers should not aggravate the level of energy poverty. The GEO draft provides, among others, the maintenance at current levels of regulated rates for electricity, gas transmission and distribution services during the period when provisions of the ordinance and the recognition are applied for regulated rates of the financial expenses occasioned by bank loans contracted between 2022-2023, intended to cover the expenses with the acquisition of electricity and natural gas, generated by the increase of prices on the wholesale market, in order to cover technological consumption.

Chairman of the Board of Directors:
Mr. Pignoloni Carlo Franco Emanuele

Financial manager:
Mr. Popescu Razvan Cristian

Directors

Ms. Guerrieri Stefania

Ms. Monica Hodor

Mr. Laurentiu Cazacu

Mr. Ghenoiu Radu